

Message Text

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PAGE 01 STATE 019786
ORIGIN EA-12

INFO OCT-02 ISO-00 AID-05 /018 R

66011

DRAFTED BY:EA/TIMBS:REFRITTS

APPROVED BY:EA/TIMBS:REFRITTS

AID/ASIA/AA/EA: - MR. STEINBERG

-----130170 251458Z /43

R 250639Z JAN 78

FM SECSTATE WASHDC

INFO AMEMBASSY NEW DELHI 0000

C O N F I D E N T I A L STATE 019786

FOR AID/AA/ASIA SULLIVAN

FOL RANGOON 262 SENT ACTION SECSTATE JAN 24, 1978 REPEATED
TO YOU QUOTE

C O N F I D E N T I A L RANGOON 0262

E.O. 11652: GDS

TAGS: EAID, EFIN, BM

SUBJECT: DEPUTY ASSISTANT SECRETARY OAKLEY'S CALL ON DR. MAUNG
SHEIN

SUMMARY. DURING HIS VISIT TO BURMA, DEPUTY ASSISTANT SECRETARY
ROBERT OAKLEY CALLED ON GUB DEPUTY MINISTER FOR PLANNING AND
FINANCE DR. MAUNG SHEIN. THE DEPUTY MINISTER MADE AN ALMOST
PERSONAL APPEAL FOR PLEDGES FROM DONOR COUNTRIES AT THE UPCOMING
CONSULTATIVE GROUP MEETING FOR BURMA. DR. MAUNG SHEIN ALSO NOTED
BURMA'S SUCCESS IN VIRTUALLY ELIMINATING INFLATION AND HE
DISCUSSED OTHER ASPECTS OF BURMA'S ECONOMY SUCH AS RICE EXPORTS
AND FOREIGN ASSISTANCE. BURMA HAS DONE WELL IN CONTROLLING
INFLATION AND DR. MAUNG SHEIN OBVIOUSLY FELT THAT THIS WAS FOR
HIM A PERSONAL AS WELL AS A NATIONAL ACHIEVEMENT. MAUNG SHEIN WAS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 019786

MAKING AN APPEAL TO THE USG FOR ECONOMIC ASSISTANCE, AND THE
EMBASSY BELIEVES THAT MODEST USG DEVELOPMENT ASSISTANCE FOR
BURMA IS NOW BOTH DESIRABLE AND PERHAPS ESSENTIAL TO FURTHER OUR
PRIMARY INTERESTS IN BURMA. END SUMMARY.

1. DEPUTY ASSISTANT SECRETARY ROBERT OAKLEY ACCOMPANIED BY
DCM AMMON BARTLEY, DONALD FIELD OF EA/TIMBS AND VERNE R. RICKEY,

ECONOMIC/COMMERCIAL OFFICER, CALLED ON DR. MAUNG SHEIN, GUB DEPUTY MINISTER FOR PLANNING AND FINANCE, ON JANUARY 19. DR. MAUNG SHEIN WAS IN, WHAT IS FOR HIM, AN EXPANSIVE MOOD. HE RESPONDED TO QUESTIONS AS FULLY AS POSSIBLE AND ELABORATED ON SOME POINTS BEYOND THE SCOPE OF THE QUESTION.

2. DR. MAUNG SHEIN OPENED THE SUBSTANTIVE PORTION OF THE CONVERSATION IN RESPONSE TO A GENERAL QUESTION ON THE CONSULTATIVE GROUP BY SAYING HE INTENDED TO STRESS BURMA'S IMPROVED FISCAL POSITION AT THE MEETING. THE DEPUTY MINISTER SAID THAT FOR THE SECOND CONSECUTIVE YEAR THERE WOULD BE A BUDGET SURPLUS DESPITE THE EARLIER ESTIMATE OF A DEFICIT OF ABOUT K200 MILLION. THIS SURPLUS WAS DUE MAINLY TO THE FACT THAT THE NEW BUDGET LAW ALLOWS NO SUPPLEMENTARY APPROPRIATIONS AND THE K100 MILLION WHICH WAS SET ASIDE AS RESERVE IN THE ORIGINAL BUDGET TO MEET EMERGENCY APPROPRIATIONS WAS DRAWN DOWN BY ONLY K10 MILLION IN THE PRESENT 1977/78 FISCAL YEAR. REVENUE COLLECTIONS WERE ALSO HIGHER THAN ORIGINALLY ANTICIPATED.

3. MAUNG SHEIN FURTHER STATED THAT THIS SURPLUS AGAIN MEANT THE GUB DID NOT HAVE TO SEEK DOMESTIC FINANCING AND AS A RESULT MONEY SUPPLY EXPANDED BY ONLY FOUR PERCENT. THIS, HE SAID, VIRTUALLY ELIMINATED BURMA'S INFLATION PROBLEM. THE AVERAGE RATE OF INFLATION FOR THE FIRST 11 MONTHS OF CY 1977 WAS ONLY TWO PERCENT.

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PAGE 03 STATE 019786

4. MAUNG SHEIN WENT ON TO MAKE WHAT AMOUNTED TO A PERSONAL APPEAL FOR DONOR COUNTRIES TO BE MORE FORTHCOMING WITH PLEDGES OF ASSISTANCE FOR BURMA AT THE UPCOMING CONSULTATIVE GROUP MEETING. HE EXPLAINED THAT HE HAD TO SHOW THE PYITHY HLUTTAW (PARLIAMENT) AND "THE POWERS THAT BE" THAT BURMA'S PARTICIPATION IN THE GROUP IS WORTHWHILE. HE RECOGNIZED THAT LAST YEAR'S MEETING AT TOKYO WAS LARGELY CONCERNED WITH FORMATION OF THE GROUP AND THAT THE DELEGATIONS WERE UNDER NO OBLIGATION TO MAKE SPECIFIC PLEDGES. WHILE THERE IS STILL NO PLEDGING OBLIGATION, MAUNG SHEIN HOPED THAT THE DELEGATIONS COULD GIVE A POSITIVE INDICATION OF THEIR PROPOSED ASSISTANCE FOR BURMA IN THE COMING YEAR, ASSISTANCE WHICH HE HOPED WOULD APPROACH BURMA'S ESTIMATED FOREIGN EXCHANGE GAP OF \$260 MILLION.

5. ON THE SUBJECT OF PRIVATE FOREIGN INVESTMENT, THE DEPUTY MINISTER WAS SOMEWHAT LESS FORTHCOMING. HE NOTED THAT PLANS WERE UNDER WAY TO OPEN NEGOTIATIONS WITH FOREIGN PETROLEUM FIRMS FOR OFFSHORE EXPLORATION, BUT HE DID NOT KNOW WHEN THIS WOULD BE ANNOUNCED. HE STATED THAT THERE WOULD BE NO NEGOTIATIONS FOR ONSHORE OIL EXPLORATION. THE DEPUTY MINISTER JOKINGLY CORRECTED A REFERENCE TO JOINT VENTURES BY SAYING THE BURMESE THERE IS "MUTUALLY BENEFICIAL ECONOMIC COOPERATION". HE WENT ON TO NOTE

THAT THIS COOPERATION WOULD MOST LIKELY TAKE THE FORM OF FINANCING AGREEMENTS WITH FOREIGN BANKS SIMILAR TO THE CHASE MANHATTAN BANK LOAN NEGOTIATED LAST YEAR. HE AVOIDED FURTHER SPECULATION REGARDING DIRECT FOREIGN INVESTMENT.

6. THE DEPUTY MINISTER SAID THAT BURMA HAD RECENTLY CONCLUDED ECONOMIC COOPERATION AGREEMENTS WITH CZECHOSLOVAKIA AND FRG. THE CZECH LOAN OF ABOUT \$140 MILLION WOULD BE MAINLY TO EXPAND AND REVAMP THE TRACTOR FACTORY THE CZECHS HAD EARLIER FINANCED. THE FACTORY HAD TO PRODUCE MORE SPARE PARTS AS MANY TRACTORS IN BURMA NOW STAND IDLE FOR LACK OF PARTS. THE FRG LOAN WOULD GO TOWARD THE ESTABLISHMENT OF A FERTILIZER FACTORY (UREA) WITH A CAPACITY OF 600 TONS PER DAY. MOST OF THE FERTILIZER WOULD BE UTILIZED IN BURMA, PARTICULARLY FOR THE EXPANDING
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 019786

AREAS UNDER CULTIVATION WITH MODERN HIGH-YIELD RICE WHICH REQUIRES BOTH FERTILIZER AND MECHANICAL TILLING, WITH LITTLE FOR EXPORT.

7. HE SAID BURMA WOULD NOT FULLY MEET ITS EXPORT TARGET FOR 1977/78. THIS, HE CLAIMED, WAS MAINLY BECAUSE THE GUB HAD BEEN HOLDING BACK ON RICE EXPORTS IN RECENT MONTHS. EXPORTS WERE BEING HELD UP FOR TWO REASONS: (1) BECAUSE THE GUB WANTED TO BE SURE THERE WAS ENOUGH RICE IN THE COUNTRY TO MEET DEMAND IN REICE DEFICIT AREAS; AND (2) BECAUSE THE INTERNATIONAL PRICE OF RICE IS EXPECTED TO RISE IN COMING MONTHS AND THE GUB WANTED TO WAIT AND TAKE ADVANTAGE OF THESE HIGHER PRICES. DESPITE CLIMATE PROBLEMS IN SOME AREAS, HE SEEMED OPTIMISTIC ABOUT PROSPECTS FOR ANOTHER LARGE PADDY HARVEST DUE TO INCREASED YIELDS OF MODERN VARIETIES OF RICE IN THOSE AREAS. HE SAID GOVERNMENT PADDY COLLECTIONS WERE RUNNING AHEAD OF SCHEDULE

8. COMMENT: ONE REASON FOR DR. MAUNG SHEIN'S APPARENT GOOD MOOD MAY HAVE BEEN HIS CONFIDENCE THAT HE HAS DONE A GOOD JOB OVER THE PAST YAR. DR. MAUNG SHEIN HAS BEEN DE FACTO MINISTER FOR PLANNING AND FINANCE FOR THE ENTIRE YEAR AS CABINET CHANGES HAVE PLACED ONLY CARETAKERS IN THE MMINISTER'S POSITION. THE DOMESTIC BUDGET SURPLUS (NOT AN ACTUAL OVERALL SURPLUS WHEN FOREIGN BORROWING IS ADDED TO THE ACCOUNT) IS A PERSONAL ACHIEVEMENT FOR HIM. HE IS PROUD, AND RIGHTLY SO, OF THE PRESENT PRICE SITUATION WHICH WHEN COMPARED WITH AN ANNUAL INFLATION RATE OF 22 PERCENT IN CY 1976 IS A REAL ACCOMPLISHMENT.

9. OBVIOUSLY HE WAS MAKING A CASE FOR PLEDGES FROM DONOR COUNTRIES AT THE UPCOMING CONSULTATIVE GROUP MEETING. A SUCCESS AT THE MEETING WOULD FURTHER STRENGTHEN HIS POSITION. IT WAS
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PAGE 05 STATE 019786

ALSO OBVIOUS THAT HE HAD WANTED THE CONSULTATIVE GROUP MEETING TO TAKE PLACE IN ADVANCE OF THE NEXT LEGISLATIVE SESSION IN MARCH SO HE COULD REPORT TO THAT BODY ON WHAT HAD BEEN ACCOMPLISHED. IT SHOULD BE NOTED THAT GUB AND WORLD BANK OFFICIALS HAVE IN THE PAST ATTEMPTED TO OBTAIN COOPERATION FROM DONOR COUNTRIES BY POINTING OUT THAT THIS WOULD STRENGTHEN THE POLITICAL POWER OF THE MORE PRAGMATIC INDIVIDUALS WITHIN THE GUB.

10. DR. MAUNG SHEIN'S REMARKS SEEMED TO EXTEND THE GUB DEFINITION OF "MUTUALLY BENEFICIAL ECONOMIC COOPERATION" TO INCLUDE FOREIGN BANK LOANS AS WELL AS JOINT VENTURES WITH PRIVATE FIRMS. USING THIS BROADER DEFINITION, THE GUB CAN QUITE HONESTLY SAY IT IS OPEN TO PROPOSALS FOR SUCH COOPERATION.

11. ON THE WHOLE THE MEETING WAS QUITE FRUITFUL, AND MAUNG SHEIN SEEMED TO BE ACTUALLY ENJOYING HIMSELF DURING THE CONVERSATION. HE WAS OBVIOUSLY PROUD OF BURMA'S ACCOMPLISHMENTS IN THE FINANCIAL FIELD LAST YEAR, AND HE TOOK THE OPPORTUNITY TO POINT THEM OUT--PERHAPS AS A REHEARSAL FOR THE CONSULTATIVE GROUP MEETING.

12. PERHAPS THE MOST SIGNIFICANT ASPECT OF THE CONVERSATION WAS MAUNG SHEIN'S UNUSUALLY DIRECT APPEAL FOR ASSISTANCE FROM DONOR COUNTRIES. IN CONTEXT, OF COURSE, IT WAS A DIRECT APPEAL TO THE USG FROM AN AUTHORITATIVE LEVEL. WE HAVE BEEN AWARE RECENTLY OF SOME RESENTMENT WITHIN THE GUB AT THE LACK OF TANGIBLE DEVELOPMENTAL SYMPATHY FROM THE U.S. AND THIS MAY WELL HAVE BEEN CONNECTED WITH THAT AND, IN EFFECT, AN INVITATION TO DEMONSTRATE OUR GOOD WILL. IT WAS AN ECONOMIC CONVERSATION BUT THE POLITICAL CONTENT WAS EVIDENT AND, FOR A BURMESE, QUITE DIRECT.

13. THE EMBASSY IS INCREASINGLY OF THE OPINION THAT MODEST DEVELOPMENT ASSISTANCE FOR BURMA IS DESIRABLE--PERHAPS

CONFIDENTIAL

PAGE 06 STATE 019786

ESSENTIAL IF OUR PRIMARY NATIONAL INTEREST HERE IS NOT TO BE ERODED BY A PERCEIVED LACK OF SYMPATHETIC UNDERSTANDING. THE AMBASSADOR WILL FORWARD SOME SPECIFIC IDEAS FOR ASSISTANCE WITHIN THE WEEK. BEAN UNQUOTE VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, VISITS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE019786
Document Source: CORE
Document Unique ID: 00
Drafter: EA/TIMBS:REFRITTS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780037-0445
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780123/aaaaatkn.tel
Line Count: 221
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 885509e0-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3715644
Secure: OPEN
Status: NATIVE
Subject: DEPUTY ASSISTANT SECRETARY OAKLEY'S CALL ON DR. MAUNG SHEIN SUMMARY. DURING HIS VISIT TO BURMA, DEPUTY ASSISTANT
TAGS: EAID, EFIN, BM, US, (OAKLEY, ROBERT), (SHEIN, MUANG)
To: NEW DELHI
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/885509e0-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014